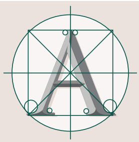


Artisan Floating Rate Strategy

QUARTERLY Commentary

As of 30 September 2022

Investment Process

We seek to invest in issuers with high-quality business models that have compelling risk-adjusted return characteristics. Our research process has four primary pillars:

Business Quality

We use a variety of sources to understand an issuer's business model resiliency. We analyze the general health of the industry in which an issuer operates, the issuer's competitive position, the dynamics of industry participants and the decision-making history of the issuer's management.

Financial Strength and Flexibility

We believe that analyzing the history and trend of free cash flow generation is critical to understanding an issuer's financial health. Our financial analysis also considers an issuer's capital structure, refinancing options, financial covenants, amortization schedules and overall financial transparency.

Downside Analysis

We believe that credit instruments by their nature have an asymmetric risk profile. The risk of loss is often greater than the potential for gain, particularly when looking at below investment grade issuers. We seek to manage this risk with what we believe to be conservative financial projections that account for industry position, competitive dynamics and positioning within the capital structure.

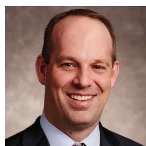
Value Identification

We use multiple metrics to determine the value of an investment opportunity. We look for credit improvement potential, relative value within an issuer's capital structure, catalysts for business improvement and potential value stemming from market or industry dislocations.

Team Overview

Our team brings together a group of experienced credit analysts who are dedicated to a single investment philosophy and process. All team members conduct deep fundamental credit research as generalists with sector tendencies to identify issuers with high quality business models that have compelling risk-adjusted return characteristics.

Portfolio Management



Bryan C. Krug, CFA
Portfolio Manager (Lead)

Seth B. Yeager, CFA
Portfolio Manager

Investment Results (% USD)

			Average Annual Total Returns				
As of 30 September 2022	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
Composite — Gross	**1.60**	**-2.96**	—	—	—	—	**-2.96**
Composite — Net	**1.43**	**-3.46**	—	—	—	—	**-3.46**
Credit Suisse Leveraged Loan Index	1.19	-3.31	—	—	—	—	-3.31

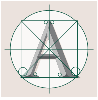
Annual Returns (% USD) 12 months ended 30 September

	2018	2019	2020	2021	2022
Composite — Net	—	—	—	—	—

Source: Artisan Partners/Credit Suisse. Returns for periods less than one year are not annualized. [1]Composite inception: 1 January 2022.

Past performance does not guarantee and is not a reliable indicator of future results. Current performance may be lower or higher than the performance shown. Composite performance has been presented in both gross and net of investment management fees. The portfolio's returns may vary greatly over shorter periods due to the limited operating period since inception.

Investment Risks: Investments will rise and fall with market fluctuations and investor capital is at risk. Investors investing in strategies denominated in non-local currency should be aware of the risk of currency exchange fluctuations that may cause a loss of principal. These risks, among others, are further described on the last page, which should be read in conjunction with this material.



Performance Discussion

Our portfolio outpaced the Credit Suisse Leveraged Loan Index in Q3. Strong security selection across our portfolio of floating-rate instruments was the largest source of outperformance, helped by idiosyncratic strength from holdings in the financial services and food sectors. Elsewhere, our small out-of-benchmark exposure to other floating-rate securities and secured high yield bonds was also additive to returns. This was somewhat offset by idiosyncratic weakness across the services and media/telecom sectors. As we look ahead, we continue to highlight the benefit of floating-rate loans in this environment of widespread volatility. And we believe our focused and high-conviction approach will help us successfully navigate the range of outcomes that may develop over the coming quarters.

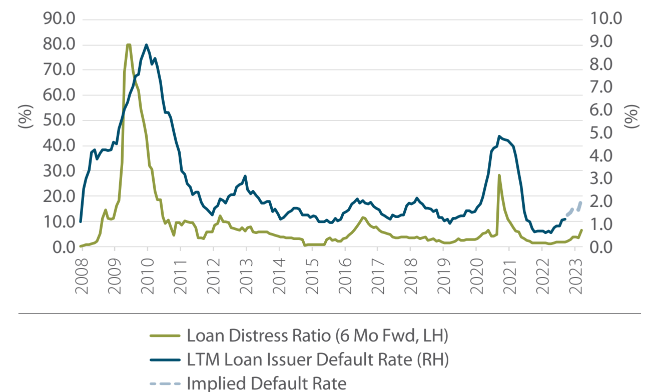
Investing Environment

Volatility remained front and center throughout the quarter as investors reacted to a worsening mix of higher inflation, tighter monetary conditions and slowing economic growth. While credit markets opened the quarter with a summer rally powered by expectations of a dovish Fed pivot, a string of hotter-than-expected inflation prints in August led Fed officials to double down on their commitment to taming inflation despite intensifying fears of a global recession. Five-year Treasury yields responded by marching 100bps higher, pulling down valuations across nearly all risk assets. Still, leveraged loans showed resilience throughout the volatility, sidestepping much of the duration damage felt across broader equity and fixed income markets. The asset class faded a portion of the gains into quarter end but was able to finish the period with returns of 1.2% (as measured by the Credit Suisse Leveraged Loan Index). For the year, loan's modest loss of 3.3% ranks among the best across both equity and fixed income asset classes.

Discount margins for the index inched higher to 668bps, while yields measured on a three-year takeout increased to 11.0%—100bps more than subordinated risk in the high yield market. While valuations at the index level were slightly wider quarter over quarter, there was an uptick in distress underneath the surface. Loans trading below $80 increased to 6% of the market as concerns of an economic slowdown and higher borrowing costs disproportionately impacted more levered capital structures. As a result, lower rated risk continued to underperform during the quarter—a trend that has accelerated through the year. Overall, BBs led the market higher with gains of 2.3%, followed by Bs (1.1%). CCCs were the clear laggard, declining 1.6%. This preference for quality was also evident across seniority, where first liens provided an index-like gain of 1.3% and second liens lagged with losses of 2.0%.

With rising rates and widespread risk aversion, primary market activity reached a near standstill. The third quarter's new issuance volumes were the lightest since 2010, as access to capital markets was largely closed. However, we have identified opportunities in selectively investing into attractive discounted new issuance, although with a high pass rate. Financing costs for leveraged issuers have nearly tripled from levels at the start of the year, making re-leveraging transactions across the M&A and leveraged buyout spaces increasingly difficult. For previously committed buyout financings, tepid demand has required significant concessions and deep discounts to be completed or led companies to pull the deals altogether.

Exhibit 1: Current Distress Suggests Loan Defaults Will Increase to ~2%—In Line with Long-Term Averages



Source: Credit Suisse. As of 30 Sep 2022. Implied defaults are based on a regression of historical default and distress patterns.

Default activity saw a modest pickup during the quarter, with six defaults impacting $10 billion of loans. There is one sizable loan and high yield bond issuer—to which we have no exposure—which represents 0.45% par amount of the loan index. While elevated relative to the cyclical lows of the last 12 months, default rates of 1.1% are still well below long-term averages. Fortunately, fundamentals remain in a place of strength, and the health of corporate borrowers is at one of the best starting points in years heading into this period of uncertainty. Thus far, the effects of rising rates on corporate fundamentals have been milder than expected. While backward-looking, leverage levels remain anchored near post-Global Financial Crisis (GFC) lows, and despite higher funding costs, coverage ratios are near record highs, with operating gains offsetting the impact of rising interest rates to date. Additionally, the lack of near-term maturities indicates that borrowers have a strong liquidity runway that should help limit the risk of default. Just 7% of high yield and 11% of the leveraged loan debt markets mature over the next two years, supporting the notion that near-term defaults will be lower than previous cycles and more in line with long-term averages.

Portfolio Positioning

We opportunistically rotated the portfolio throughout the quarter, taking advantage of the risk-on rally in late summer to upgrade the portfolio across ratings. We selectively used outperforming B-rated credits as a source of funds to allocate to new BB opportunities that offered similar yield and return metrics but with incrementally less credit risk. Our CCC exposure also moved marginally higher. We

established a position in a public company that was downgraded to CCC following an earnings miss that pushed the loan down more than 10 points. Broad weakness allowed us to build a position in what we believe to be a stable business with low risk of impairment and outsized total return potential. Across sectors, we continue to prefer full-cycle business models with strong recurring revenues and high margins. Accordingly, we maintain an overweight to services, enterprise software and financial services and underweights to more cyclical industries across gaming, housing, chemicals and retail sectors.

We also allowed our cash position to build throughout the quarter in anticipation of higher volatility related to a building pipeline of bank-backed issuance. Tighter lending standards and building risk aversion—combined with a backlog of large M&A and LBO financings—led to a stalled primary market throughout the quarter. While the market remained open to smaller financings from familiar issuers, creditor-friendly concessions were required to get deals done. We took advantage of these dynamics by deploying cash to several opportunities issued at attractive discounts to par. These investments were characterized by higher spreads, longer call protection and tighter documentation that help protect our downside over the life of the loan and will benefit our investments in a more accommodative capital markets scenario. Of course, all new deals are not created equal, and since late June and throughout Q3, we participated in seven new transactions, which equate to a pass rate of roughly 85%.

An example of the disconnect across the new issue market occurred with our investment in Chef's Warehouse—a name caught in the downdraft of stalled primary markets. The niche food distributor caters to a more upscale and differentiated restaurant base, which translates into industry-leading sales growth and margins relative to more regional operators. This focus on higher end and more upscale dining establishments also allows it to be somewhat protected from broader macro pressures. Despite being a higher quality issuer in our view, the company's smaller term loan refinancing was met with relatively tepid demand, allowing us to build a sizable position at mid 90s prices and nearly a 10% yield. Since then, the loan has traded several points higher, materially outperforming the broader market and other recent new issues.

Other notable new positions to the portfolio included the first lien loan of global moving and relocation services company SIRVA Worldwide—a new top 10 issuer for the portfolio. SIRVA merged with BGRS—a key competitor—to create one of the world's largest relocation services companies. With the merger, SIRVA will be able to improve its positioning overseas while benefiting from the synergies of lower headcount and shared services. The combined entity operates with a unique asset-light business model that provides flexibility to adjust to changing demand volumes. With the transaction, the company's sponsor introduced new credit lines, an extended credit facility and new equity capital that was immediately deleveraging and broadly positive to the company's credit profile. Rating agencies responded by upgrading the entire capital structure based on its improved liquidity profile. Our position reacted positively to the news, providing high single-digit returns. We believe there is further total return potential for our first lien position, given high single-digit carry and a 10-point discount to par.

Finally, a new addition outside the portfolio's top 10 is Medline—the nation's largest medical supply manufacturer and distributor. The former family-owned business was sold to a consortium of sponsors last year in one of the largest leveraged buyouts since the GFC. The company is a leader in manufacturing and distribution of mission-critical, single-use, branded and private label medical supplies, creating a predictable recurring revenue stream that is largely recession-resilient. While the company has a more levered credit profile, strong cash flow generation and EBITDA growth should allow the company to deleverage quickly. Medline's first lien is one of the benchmark's largest constituents and a name we've been consistently underweight. But given the structure's attractive risk/reward profile at current valuations, we built a position at low 90s prices.

Perspective

While we recognize elevated inflation and aggressive central bank policy present a challenging environment for credit investors, we maintain a positive outlook for our opportunity set. For credit investors, the fastest and most aggressive hiking cycle we've seen in decades is unfolding against a backdrop of fundamental strength for leveraged corporate borrowers. The health of levered issuers is at one of the best starting points we've seen in years heading into this period of uncertainty. The post-pandemic period of ultra-low rates, record issuance and reopening-driven earnings growth has translated into three-decade highs in coverage ratio and leverage levels at pre-pandemic lows. Taken together, we believe the risk of default is lower than what is being priced into the market today, creating a mismatch between valuation and fundamentals.

Fortunately, a worsening macro backdrop has been met with a much better set of valuations for credit selection. With average loan prices in the low 90s and all-in yields through 10% for secured lenders, the volatile backdrop has dramatically improved the prospective returns of our portfolio. While we expect volatility to remain a dominant feature of the market environment over the near term, these periods play into the strength of our approach. Our value-oriented, research-intensive philosophy allows us to lean into periods when dislocation and liquidity are most severe. Ultimately, our ability to capitalize on market inefficiencies through individual security selection will be a critical differentiator as we move forward.

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Investment Risks: Fixed income securities carry interest rate risk and credit risk for both the issuer and counterparty and investors may lose principal value. In general, when interest rates rise, fixed income values fall. High income securities (junk bonds) are speculative, experience greater price volatility and have a higher degree of credit and liquidity risk than bonds with a higher credit rating. The portfolio typically invests a significant portion of its assets in lower-rated high income securities (e.g., CCC). Loans carry risks including insolvency of the borrower, lending bank or other intermediary. Loans may be secured, unsecured, or not fully collateralized, trade infrequently, experience delayed settlement, and be subject to resale restrictions. Private placement and restricted securities may not be easily sold due to resale restrictions and are more difficult to value. Use of derivatives may create investment leverage and increase the likelihood of volatility and involve risks different from, or greater than, the risks associated with investing in more traditional investments, including loss in excess of the amount invested. International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging markets. These risks, among others, are further described in Artisan Partners Form ADV, which is available upon request.

Unless otherwise indicated, the Artisan Strategy characteristics relate to that of an investment composite or a representative account managed within a composite. It is intended to provide a general illustration of the investment strategy and considerations used by Artisan Partners in managing that strategy. Individual accounts may differ, at times significantly, from the reference data shown due to varying account restrictions, fees and expenses, and since-inception time periods, among others. Where applicable, this information is supplemental to, and not to be construed with, a current or prospective client's investment account information. References to individual security performance relate to a representative account in the composite. Individual holding periods may differ.

For the purpose of determining the portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the Strategy. The holdings mentioned above comprised the following percentages of a representative account within the Artisan Floating Rate Strategy Composite's total net assets as of as of 30 Sep 2022: Dairyland USA Corp 2.1%; SIRVA Worldwide Inc 2.5%; Medline Industries Inc 1.5%. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. Totals may not sum due to rounding.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

Net-of-fees composite returns were calculated using the highest model investment advisory fees applicable to portfolios within the composite. Fees may be higher for certain pooled vehicles and the composite may include accounts with performance-based fees. All performance results are net of commissions and transaction costs, and have been presented gross and net of investment advisory fees. Dividend income is recorded net of foreign withholding taxes on ex-dividend date or as soon after the ex-dividend date as the information becomes available to Artisan Partners. Interest income is recorded on the accrual basis. Performance results for the Index include reinvested dividends and are presented net of foreign withholding taxes but, unlike the portfolio's returns, do not reflect the payment of sales commissions or other expenses incurred in the purchase or sale of the securities included in the indices.

Credit Suisse (CS) Leveraged Loan Index is an unmanaged market value-weighted index designed to mirror the investable universe of the US dollar-denominated leveraged loan market. New issues are added to the index on their effective date if they qualify according to the following criteria: loan facilities must be rated "BB" or lower; only fully funded term loan facilities are included; and issuers must be domiciled in developed countries. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

This summary represents the views of the portfolio manager as of 30 Sep 2022. Those views and portfolio holdings are subject to change and Artisan Partners disclaims any obligation to advise investors of such changes. The discussion of portfolio holdings does not constitute a recommendation of any individual security.

Credit Quality Ratings typically range from AAA (highest) to D (lowest) and are subject to change. The ratings apply to underlying holdings of the Portfolio and not the Portfolio itself. **Non-Investment Grade** refers to fixed income securities with lower credit quality. **Par-weighted Default Rate** represents the total dollar volume of defaulted securities compared to the total face amount of securities outstanding that could have defaulted. **Credit spread** is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)** is an indicator of a company's financial performance which is calculated by looking at earnings before the deduction of interest expenses, taxes, depreciation and amortization. **Profit margin** is a measure of profitability and is calculated by dividing the profit as a percentage of the revenue. **Interest coverage ratio** is a financial ratio measuring a company's ability to make interest payments on its debt calculated as earnings before interest and taxes divided by total interest expense.

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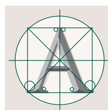
A R T I S A N  P A R T N E R S